

1 AN ACT relating to local investments.

2 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

3 ➔Section 1. KRS 66.480 is amended to read as follows:

4 (1) The governing body of a city, county, urban-county, charter county, school district
5 (provided that its general procedure for action is approved by the Kentucky Board
6 of Education), or other local governmental unit or political subdivision, may invest
7 and reinvest money subject to its control and jurisdiction in:

8 (a) Obligations of the United States and of its agencies and instrumentalities,
9 including obligations subject to repurchase agreements, if delivery of these
10 obligations subject to repurchase agreements is taken either directly or through
11 an authorized custodian. These investments may be accomplished through
12 repurchase agreements reached with sources including but not limited to
13 national or state banks chartered in Kentucky;

14 (b) Obligations and contracts for future delivery or purchase of obligations backed
15 by the full faith and credit of the United States or a United States government
16 agency, including but not limited to:

- 17 1. United States Treasury;
- 18 2. Export-Import Bank of the United States;
- 19 3. Farmers Home Administration;
- 20 4. Government National Mortgage Corporation; and
- 21 5. Merchant Marine bonds;

22 (c) Obligations of any corporation of the United States government, including but
23 not limited to:

- 24 1. Federal Home Loan Mortgage Corporation;
- 25 2. Federal Farm Credit Banks;
- 26 3. Bank for Cooperatives;
- 27 4. Federal Intermediate Credit Banks;

- 1 5. Federal Land Banks;
- 2 6. Federal Home Loan Banks;
- 3 7. Federal National Mortgage Association; and
- 4 8. Tennessee Valley Authority;
- 5 (d) Certificates of deposit issued by or other interest-bearing accounts of any bank
- 6 or savings and loan institution **having a physical presence in Kentucky** which
- 7 are insured by the Federal Deposit Insurance Corporation or similar entity or
- 8 which are collateralized, to the extent uninsured, by any obligations, including
- 9 surety bonds, permitted by KRS 41.240(4);
- 10 (e) Uncollateralized certificates of deposit issued by any bank or savings and loan
- 11 institution **having a physical presence in Kentucky** rated in one (1) of the
- 12 three (3) highest categories by a **competent**~~[nationally recognized]~~ rating
- 13 agency;
- 14 (f) Bankers' acceptances for banks rated in one (1) of the three (3) highest
- 15 categories by a **competent**~~[nationally recognized]~~ rating agency;
- 16 (g) Commercial paper rated in the highest category by a **competent**~~[nationally~~
- 17 ~~recognized]~~ rating agency;
- 18 (h) Bonds or certificates of indebtedness of this state and of its agencies and
- 19 instrumentalities;
- 20 (i) Securities issued by a state or local government, or any instrumentality of
- 21 agency thereof, in the United States, and rated in one (1) of the three (3)
- 22 highest categories by a **competent**~~[nationally recognized]~~ rating agency;~~[and]~~
- 23 (j) Shares of mutual funds **and exchange traded funds**, each of which shall have
- 24 the following characteristics:
 - 25 1. The mutual fund shall be an open-end diversified investment company
 - 26 registered under the Federal Investment Company Act of 1940, as
 - 27 amended;

- 1 2. The management company of the investment company shall have been
2 in operation for at least five (5) years; and
3 3. All of the securities in the mutual fund shall be eligible investments
4 pursuant to this section;

5 **(k) Individual equity securities if the funds being invested are managed by a**
6 **professional investment manager regulated by a federal regulatory agency.**
7 **The individual equity securities shall be included within the Standard and**
8 **Poor's 500 Index, and a single sector shall not exceed twenty-five percent**
9 **(25%) of the equity allocation; and**

10 **(l) Individual high-quality corporate bonds that are managed by a professional**
11 **investment manager that:**

- 12 **1. Are issued, assumed, or guaranteed by a solvent institution created**
13 **and existing under the laws of the United States;**
14 **2. Have a standard maturity of no more than ten (10) years; and**
15 **3. Are rated in the three (3) highest rating categories by at least two (2)**
16 **competent credit rating agencies.**

17 (2) The investment authority provided by subsection (1) of this section shall be subject
18 to the following limitations:

19 (a) The amount of money invested at any time by a local government or political
20 subdivision in **any** one (1) ~~or more~~ of the categories of investments
21 authorized by subsection (1)(e), (f), (g), ~~and (i)~~ **(k), and (l)** of this section
22 shall not exceed twenty percent (20%) of the total amount of money invested
23 by the local government;~~and~~

24 (b) **The amount of money invested at any one (1) time by a local government or**
25 **a political subdivision in the categories of investments authorized in**
26 **subsection (1)(j), (k), and (l) of this section shall not, aggregately, exceed**
27 **forty percent (40%) of the total money invested;**

1 (c) No local government or political subdivision shall purchase any investment
 2 authorized by subsection (1) of this section on a margin basis or through the
 3 use of any similar leveraging technique; and

4 (d) At the time the investment is made, no more than five percent (5%) of the
 5 total amount of money invested by the local governments or political
 6 subdivisions shall be invested in any one (1) issuer unless:

7 1. The issuer is the United States government or an agency or
 8 instrumentality of the United States government, or an entity which
 9 has its obligations guaranteed by either the United States government
 10 or an entity, agency, or instrumentality of the United States
 11 government;

12 2. The money is invested in a certificate of deposit or other interest-
 13 bearing accounts as authorized by subsection (1)(d) and (e) of this
 14 section;

15 3. The money is invested in bonds or certificates of indebtedness of this
 16 state and its agencies and instrumentalities as authorized in
 17 subsection (1)(h) of this section; or

18 4. The money is invested in securities issued by a state or local
 19 government, or any instrumentality or agency thereof, in the United
 20 States as authorized in subsection (1)(i) of this section.

21 (3) The governing body of every local government or political subdivision that invests
 22 or reinvests money subject to its control or jurisdiction according to the provisions
 23 of subsection (1) of this section shall by January 1, 1995, adopt a written investment
 24 policy that shall govern the investment of funds by the local government or political
 25 subdivision. The written investment policy shall include but shall not be limited to
 26 the following:

27 (a) A designation of the officer or officers of the local government or political

- 1 subdivision who are authorized to invest and oversee the investment of funds;
- 2 (b) A list of the permitted types of investments;
- 3 (c) Procedures designed to secure the local government's or political subdivision's
- 4 financial interest in the investments;
- 5 (d) Standards for written agreements pursuant to which investments are to be
- 6 made;
- 7 (e) Procedures for monitoring, control, deposit, and retention of investments and
- 8 collateral;
- 9 (f) Standards for the diversification of investments, including diversification with
- 10 respect to the types of investments and firms with whom the local government
- 11 or political subdivision transacts business;
- 12 (g) Standards for the qualification of investment agents which transact business
- 13 with the local government, such as criteria covering creditworthiness,
- 14 experience, capitalization, size, and any other factors that make a firm capable
- 15 and qualified to transact business with the local government or political
- 16 subdivision; and
- 17 (h) Requirements for periodic reporting to the governing body on the status of
- 18 invested funds.
- 19 (4) Sheriffs, county clerks, and jailers, who for the purposes of this section shall be
- 20 known as county officials, may invest and reinvest money subject to their control
- 21 and jurisdiction, including tax dollars subject to the provisions of KRS Chapter 134
- 22 and 160.510, as permitted by this section.
- 23 (5) The provisions of this section are not intended to impair the power of a county
- 24 official, city, county, urban-county, charter county, school district, or other local
- 25 governmental unit or political subdivision to hold funds in deposit accounts with
- 26 banking institutions as otherwise authorized by law.
- 27 (6) The governing body or county official may delegate the investment authority

1 provided by this section to the treasurer or other financial officer or officers charged
2 with custody of the funds of the local government, and the officer or officers shall
3 thereafter assume full responsibility for all investment transactions until the
4 delegation of authority terminates or is revoked.

5 (7) All county officials shall report the earnings of any investments at the time of their
6 annual reports and settlements with the fiscal courts for excess income of their
7 offices.

8 (8) The state local debt officer is authorized and directed to assist county officials and
9 local governments, except school districts, in investing funds that are temporarily in
10 excess of operating needs by:

11 (a) Explaining investment opportunities to county officials and local governments
12 through publication and other appropriate means; and

13 (b) Providing technical assistance in investment of idle funds to county officials
14 and local governments that request that assistance.

15 (9) (a) The state local debt officer may create an investment pool for local
16 governments, except school districts, and county officials; and counties and
17 county officials and cities may associate to create an investment pool. If
18 counties and county officials and cities create a pool, each group may select a
19 manager to administer their pool and invest the assets. Each county and each
20 county official and each city may invest in a pool created pursuant to this
21 subsection. Investments shall be limited to those investment instruments
22 permitted by this section. The funds of each local government and county
23 official shall be properly accounted for, and earnings and charges shall be
24 assigned to each participant in a uniform manner according to the amount
25 invested. Charges to any local government or county official shall not exceed
26 one percent (1%) annually on the principal amount invested, and charges on
27 investments of less than a year's duration shall be prorated. Any investment

1 pool created pursuant to this subsection shall be audited each year by an
2 independent certified public accountant, or by the Auditor of Public Accounts.
3 A copy of the audit report shall be provided to each local government or
4 county official participating in the pool. In the case of an audit by an
5 independent certified public accountant, a copy of the audit report shall be
6 provided to the Auditor of Public Accounts, and to the state local debt officer.
7 The Auditor of Public Accounts may review the report of the independent
8 certified public accountant. After preliminary review, should discrepancies be
9 found, the Auditor of Public Accounts may make his or her own investigative
10 report or audit to verify the findings of the independent certified public
11 accountant's report.

12 (b) If the state local debt officer creates an investment pool, he or she shall
13 establish an account in the Treasury for the pool. He or she shall also establish
14 a separate trust and agency account for the purpose of covering management
15 costs, and he or she shall deposit management charges in this account. The
16 state local debt officer may promulgate administrative regulations, pursuant to
17 KRS Chapter 13A, governing the operation of the investment pool, including
18 but not limited to provisions on minimum allowable investments and
19 investment periods, and method and timing of investments, withdrawals,
20 payment of earnings, and assignment of charges.

21 (c) Before investing in an investment pool created pursuant to this subsection, a
22 local government or county official shall allow any savings and loan
23 association or bank in the county, as described in subsection (1)(d) of this
24 section, to bid for the deposits, but the local government or county official
25 shall not be required to seek bids more often than once in each six (6) month
26 period.

27 (10) (a) With the approval of the Kentucky Board of Education, local boards of

1 education, or any of them that desire to do so, may associate to create an
2 investment pool. Each local school board which associates itself with other
3 local school boards for the purpose of creating the investment pool may invest
4 its funds in the pool so created and so managed. Investments shall be limited
5 to those investment instruments permitted by this section. The funds of each
6 local school board shall be properly accounted for, and earnings and charges
7 shall be assigned to each participant in a uniform manner according to the
8 amount invested. Charges to any local school board shall not exceed one
9 percent (1%) annually on the principal amount invested, and charges on
10 investments of less than a year's duration shall be prorated. Any investment
11 pool created pursuant to this subsection shall be audited each year by an
12 independent certified public accountant, or by the Auditor of Public Accounts.
13 A copy of the audit report shall be provided to each local school board
14 participating in the pool. In the case of an audit by an independent certified
15 public accountant, a copy of the audit report shall be provided to the Auditor
16 of Public Accounts, and to the Kentucky Board of Education. The Auditor of
17 Public Accounts may review the report of the independent certified public
18 accountant. After preliminary review, should discrepancies be found, the
19 Auditor of Public Accounts may make his or her own investigative report or
20 audit to verify the findings of the independent certified public accountant's
21 report.

- 22 (b) The Kentucky Board of Education may promulgate administrative regulations
23 governing the operation of the investment pool including but not limited to
24 provisions on minimum allowable investments and investment periods, and
25 methods and timing of investments, withdrawals, payment of earnings, and
26 assignment of charges.

27 **(11) As used in this section, "competent rating agency" means a rating agency**

- 1 certified or approved by a national entity that engages in such a process. The
2 certification or approval process shall include but not necessarily be limited to the
3 following elements the subject rating agency must possess:
- 4 (a) A requirement for the rating agency to register and provide an annual
5 updated filing;
- 6 (b) Record retention requirements;
- 7 (c) Financial reporting requirements;
- 8 (d) Policies for the prevention of misuse of material nonpublic information;
- 9 (e) Policies addressing management of conflicts of interest, including
10 prohibited conflicts;
- 11 (f) Prohibited acts practices;
- 12 (g) Disclosure requirements;
- 13 (h) Any policies, practices, and internal controls required by the national entity;
14 and
- 15 (i) Standards of training, experience, and competence for credit analysts.